

CITY OF REINBECK  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
& SUPPLEMENTAL INFORMATION  
SCHEDULE OF FINDINGS

June 30, 2004

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## City of Reinbeck

### Officials

<u>Name</u>	<u>Title</u> <b>(Before January 2004)</b>	<u>Term Expires</u>
Lon Larsen	Mayor	Dec 2003
Ron Petersen	Mayor Pro tem	Dec 2003
Mike Schick	Council Member	Dec 2005
Dave Heasley	Council Member	Dec 2005
Allen Stickfort	Council Member	Dec 2005
Ray Rannfeldt	Council Member	Dec 2003
<b>(After January 2004)</b>		
Lon Larsen	Mayor	Dec 2007
Ron Petersen	Mayor Pro tem	Dec 2007
Mike Schick	Council Member	Dec 2005
Dave Heasley	Council Member	Dec 2005
Allen Stickfort	Council Member	Dec 2005
Beryl Manlick	Council Member	Dec 2007
Quentin Mayberry	City Administrator	Indefinite
Janalyn Harris	Administrative Assistant	Indefinite
Kurt Leistikow	Attorney	Indefinite

Keith Oltrogge CPA  
201 East Main Street  
Denver IA 50622

Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Reinbeck, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Reinbeck's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Reinbeck as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 9, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, I have also issued my reports dated September 28, 2004 on my consideration of the City of Reinbeck's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 21 through 22 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Reinbeck's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Keith Oltrogge", is centered on a light blue rectangular background. The signature is written in a cursive, flowing style.

Keith Oltrogge  
Certified Public Accountant

September 28, 2004

**City of Reinbeck**  
**Management's Discussion and Analysis**  
**June 30, 2004**

The City of Reinbeck provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

**Financial Highlights**

- We had budgeted for a loan from the DNR to pay for our new sewer plant. Due to delays in approval of our plan, the plant was not started in FYE 04, therefore, no funds were obtained.
- Monies were transferred to close certain accounts, refund money to the general account that was spent on a sewer project, transfer TIF money to the general fund to pay off in-house loans, and other transfers that were needed to clean up the financial statements. This accounted for the difference in budget vs. actual in the "transfers out and other financing sources" account.

**Basis of Accounting**

The City has elected to present its financial statements on a cash basis of accounting. The cash basis of accounting is a basis other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenue, expenses and their related assets and liabilities. Under the City's cash basis of accounting, revenues and expenses are recorded when they result from cash transactions. As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

**Report Layout**

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34. GASB 34 implements a new model of financial reporting for state and local governments designed to enhance the usefulness of the City's annual report. Besides the Management's Discussion and Analysis (MD&A), the report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of non-major funds and supplemental information. The first several statements are highly condensed and present a government-wide view of the City's finances. Within this view, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as public safety, public works, health and social services, culture and recreation, community and economic development, general government administration, debt service, and capital projects. Business-type activities are water, sewer and telecommunication.

**Reporting The City's Financial Activities**

*Government-wide Financial Statement*

To aid in the understanding of the Statement of Activities, some additional explanation is given. First, all receipts and disbursements are categorized as either governmental activities or business-type activities. These are defined as follows:

**Governmental Funds** – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The City's major governmental funds are the General Fund, the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment (TIF), Debt Service Fund, and the Capital Projects Fund. All other governmental funds are aggregated in a single column entitled Non-major governmental funds. Governmental funds are further broken down into the following activities:

**Public Safety** – This category includes police operations, fire protection, Ambulance service, and animal control services.

**Public Works** – This category includes roads, bridges, sidewalks, street lighting, and garbage.

**Health and Social Services** – This category includes water, air, and mosquito control and other health and social services.

**Culture and Recreation** – This category includes library services, museum, band, theater, park, recreation, cemetery and other culture and recreation.

**Community and Economic Development** – This category includes economic development.

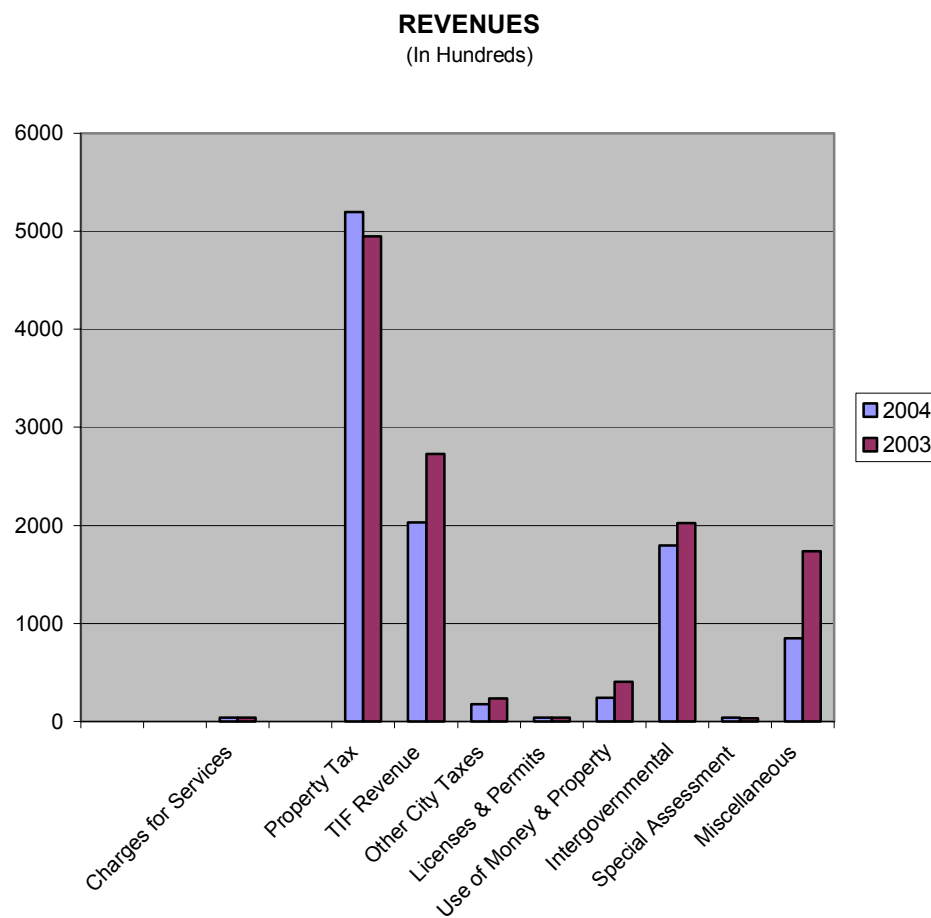
**General Government** – This category includes mayor/council, clerk, treasurer, financial administrator, city hall, general buildings and tort liability.

**Debt Service** – This category includes general, TIF and road use debt service.

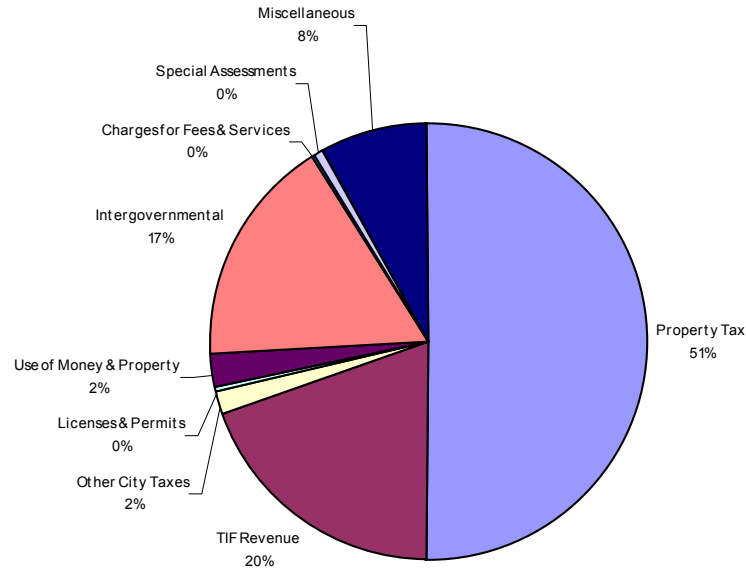
**Capital Projects** – This category includes the pool project.

**Business-Type (Proprietary) Funds** – When the City charges customers for the services it provides, these services are generally reported in business-type or proprietary funds. These are self-sufficient funds. The City's business-type funds are water utility, sewer utility and telecommunication utility. This also includes all debt service and capital projects associated specifically with the above listed utilities.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

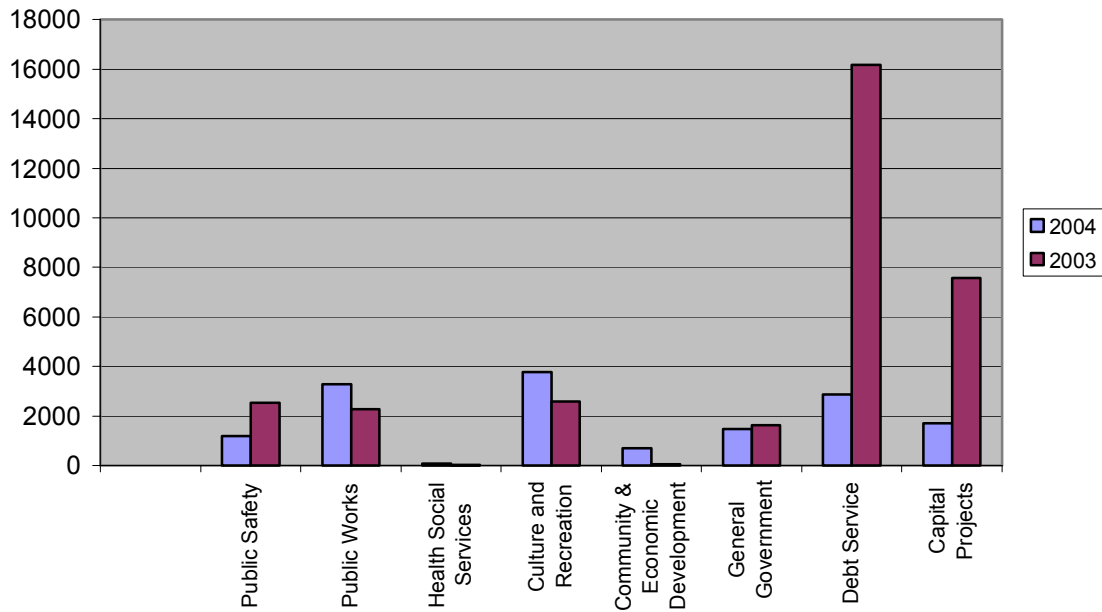


## Revenue from Governmental Activities



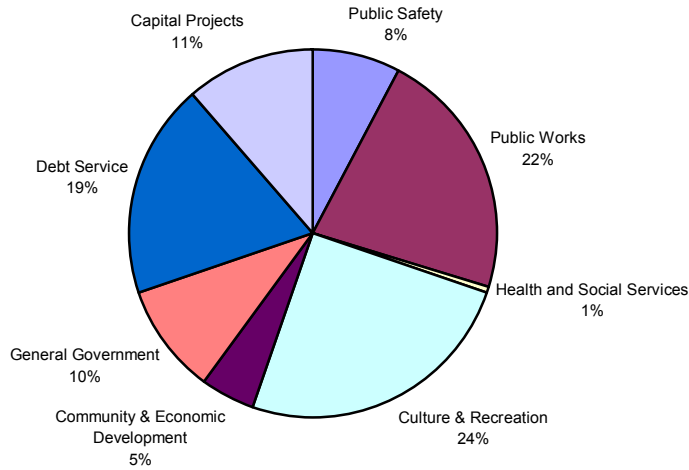
## Disbursements by Function

(In Hundreds)





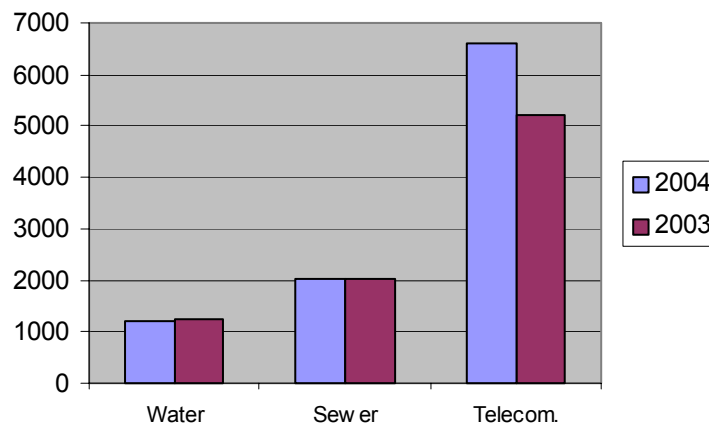
## Disbursements by Function 2004



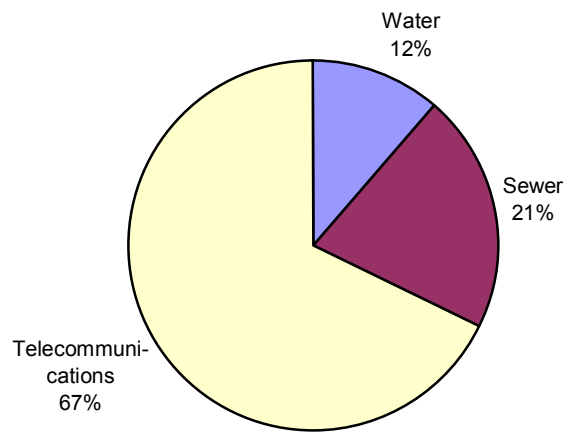
The drop in the Public Safety category was due to an ambulance being purchased in 2003, while Public Works had an increase due to the Eastgate project. This included replacing streets, curb and gutter in one-half of the Eastgate subdivision. Some tiling was also done under the street at this time. Culture and Recreation saw the park department building ball diamonds, surfacing the soccer field's parking lot, and loaning the new pool committee money for their fundraising efforts. Community & Economic Development paid for the development of a new web page for the City. The telecommunication capital project ended in 03', while the sewer relief line ended in 04'. The Debt Service declined after the loans were paid off as previously stated.

### Business-Type Activities (In Hundreds)

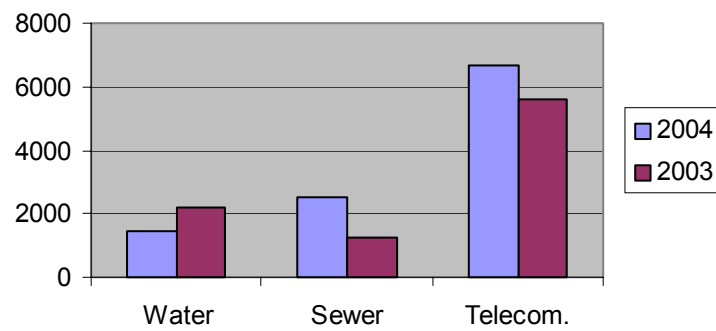
#### Receipts



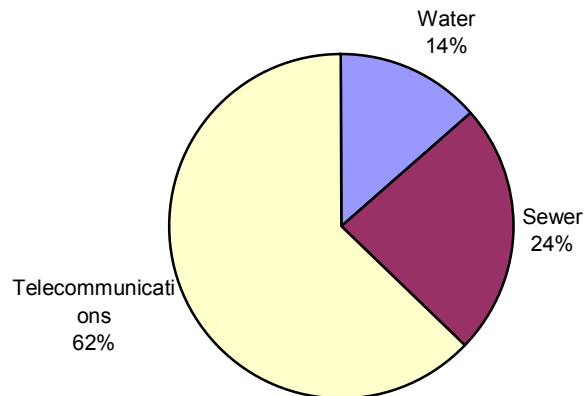
## 2004 Receipts



## Disbursements (In Hundreds)



## Disbursements 2004



Total business type activities had an increase in income due to the telecommunications system continuing to add customers. However, water and sewer showed a deficit. In the fall of 04', increases in water and sewer rates were put in place to reverse this trend. Also, as a requirement of our SRF loan for the new sewer plant, rates were to be in place that would allow for operations and the payment on the loan. There should be a significant increase in sewer income as well as a small increase in water income.

Water had a drop in expenses from 03' to 04' because we had to install a pressure reduction system. This was caused by the new Southridge development. Because Southridge was at the same level as the water plant, the pressure had to be increased at the plant. Since the area to the north could not accept this higher pressure, pressure reduction valves were installed at Cedar Street. We also are switching the water meters to an automatic read and a capital purchase was made.

The sewer department purchased land for the new sewer plant and re-roofed the storage shed. There was also \$155,000 worth of engineering cost on the new sewer plant.

### Individual Major Governmental Fund Analysis

The major changes in the revenue side of general fund from 03' to 04' are "miscellaneous" and "other financing sources". 03' "other financial sources" fund had an increase due to the bond issue that added money to the fund. The increase in 04's "miscellaneous" fund is attributed to transfers in. This account is offset with transfers out from other funds.

The road use tax fund, under special revenue, was depleted to pay for the Eastgate project. It was decided to spend down this fund rather than borrow the money. Debt Service shows a negative number because our first payment on the new bond was due before we had a chance to assess for it. It was decided to assess  $\frac{1}{4}$  of that payment over the next four years.

### Individual Major Business Type Fund Analysis

The sewer fund is being depleted by the engineering costs of the new sewer plant. We did not borrow extra to replace this money in order to keep our borrowing costs down.

### Budgetary Highlights

Over the course of the year, the City amended its budget once. It was approved on May 17, 2004 and resulted in an increase in operating disbursements related to a cost overrun of approximately \$316,000. This included increases for firemen's physicals, the repair to the Eastgate pavement, extra chemicals for mosquito spraying, fundraising for the pool, TIF funding, and the final cost on the sewer relief project. The City had sufficient cash balances to absorb these additional costs.

## Debt Administration

At June 30, 2004, the City had approximately \$4,233,896 in bonds and other long-term debt, compared to approximately \$4,205,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	Year ended June, 30	
	2004	2003
General Obligation Bonds	\$ 2195	2395
Special Assessment	19	0
Revenue Notes	<u>2020</u>	<u>1810</u>
Total	<u>4234</u>	<u>4205</u>

The revenue notes are a product of the telecommunication system and the special assessment is for the curb and gutter on Pioneer Road. The City's GO constitutional debt limit is \$3,158,114 compared to our debt of \$2,505,000.

## Economic Factors And Next Year's Budgets And Rates

The City's elected and appointed officials and citizens consider many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. These factors included the state's decision to discontinue reimbursement of property tax credits and the bank franchise fee. We also had a reduction in property tax revenue due to the rollback. These factors, along with increases in wages, utility costs, insurance costs and mandated insurance programs, required the City to cut back on general fund requests. The City is using TIF funds to try to continue the growth in amenities that they have started and still provide the quality services that the citizens have expected.

## Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Quentin Mayberry, City Administrator, 414 Main, Reinbeck, Iowa 50669. Phone (319)-788-6404

## **Basic Financial Statements**

**City of Reinbeck**

**Statement of Activities and Net Assets – Cash Basis**

**As of and for the year ended June 30, 2004**

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions, & Restricted Interest	Capital Grants, Contributions & Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 119,560	\$ 10,290	\$ 5,010	\$ -
Public works	328,849	4,166	145,836	-
Health and social services	7,953	-	-	-
Culture and recreation	378,827	36,944	26,344	-
Community and economic development	69,590	-	-	-
General government	147,581	-	-	-
Debt service	287,060	-	-	-
Capital projects	171,930	-	-	-
Total governmental activities	\$ 1,511,350	\$ 51,400	\$ 177,190	\$ -
Business type activities:				
Water	\$ 145,527	\$ 132,052	\$ -	\$ -
Sewer	95,442	204,177	-	-
Solid waste	-	78,297	-	-
Cable TV	169,043	149,268	-	-
Internet	54,603	58,614	-	-
Telephone	443,112	472,993	-	-
Sewer plant	155,309	-	-	-
Total business type activities	\$ 1,063,036	\$ 1,095,401	\$ -	\$ -
<b>Total</b>	<b>\$ 2,574,386</b>	<b>\$ 1,146,801</b>	<b>\$ 177,190</b>	<b>\$ -</b>

**General Receipts:**

Property tax levied for:  
    General purposes  
    Tax increment financing  
    Debt service  
Grants & contributions not restricted to specific purposes  
Unrestricted interest on investments  
Miscellaneous  
Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

**Cash Basis Net Assets**

Restricted: Debt service  
Unrestricted  
    Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

Governmental Activities	Business Type Activities	Total
\$ -104,260	\$ -	\$ -104,260
-178,847	-	-178,847
-7,953	-	-7,953
-315,539	-	-315,539
-69,590	-	-69,590
-147,581	-	-147,581
-287,060	-	-287,060
-171,930	-	-171,930
\$ -1,282,760	\$ -	\$ -1,282,760
\$ -	\$ -13,475	\$ -13,475
-	108,735	108,735
-	78,297	78,297
-	-19,775	-19,775
-	4,011	4,011
-	29,881	29,881
-	-155,309	-155,309
\$ -	\$ 32,365	\$ 32,365
\$ -1,282,760	\$ 32,365	\$ -1,250,395
\$ 353,295	\$ -	\$ 353,295
203,446	-	203,446
181,571	-	181,571
11,885	-	11,885
19,574	2,209	21,783
43,414	6,778	50,192
873,926	-873,926	-
\$ 1,687,111	\$ -864,939	\$ 822,172
\$ 404,351	\$ -832,574	\$ -428,223
521,453	1,165,687	1,687,140
\$ 925,804	\$ 333,113	\$ 1,258,917
\$ -62,200	\$ -	\$ -62,200
988,004	333,113	1,321,117
\$ 925,804	\$ 333,113	\$ 1,258,917

**City of Reinbeck**

**Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds**

**As of and for the year ended June 30, 2004**

		Special Revenue	
	General	Road Use Tax	Urban Renewal Tax Increment
Receipts:			
Property tax	\$ 264,311	\$ -	\$ -
Tax increment financing collections	-	-	203,446
Other city tax	10,739	-	-
Licenses and permits	4,000	-	-
Use of money and property	22,970	-	-
Intergovernmental	33,420	145,836	51
Charges for service	4,275	-	-
Special assessments	-	-	-
Miscellaneous	85,042	-	-
Total receipts	\$ 424,757	\$ 145,836	\$ 203,497
Disbursements:			
Operating:			
Public safety	\$ 119,560	\$ -	\$ -
Public works	111,677	213,733	-
Health and social services	7,953	-	-
Culture and recreation	365,748	-	-
Community and economic development	19,081	-	50,000
General government	141,849	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	\$ 765,868	\$ 213,733	\$ 50,000
Excess (deficiency) of receipts over (under) disbursements	\$ -341,111	\$ -67,897	\$ 153,497
Other financing sources (uses):			
Operating transfers in	\$ 915,592	\$ -	\$ -
Operating transfers out	-	-135,132	-278,714
Total other financing sources (uses)	\$ 915,592	\$ -135,132	\$ -278,714
Net change in cash balances	\$ 574,481	\$ -203,029	\$ -125,217
Cash balances beginning of year	15,819	228,659	116,448
Cash balances end of year	\$ 590,300	\$ 25,630	\$ -8,769
<b>Cash Basis Fund Balances</b>			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	590,300	-	-
Special revenue funds	-	25,630	-8,769
Capital projects fund	-	-	-
Total cash basis fund balances	\$ 590,300	\$ 25,630	\$ -8,769

See notes to financial statements.



Debt Service	Other Non-Major Governmental Funds	Total
\$ 177,010	\$ 78,103	\$ 519,424
-	-	203,446
4,415	2,347	17,501
-	-	4,000
-	1,364	24,334
146	134	179,587
-	-	4,275
-	4,166	4,166
-	-	85,042
\$ 181,571	\$ 86,114	\$ 1,041,775
\$ -	\$ -	\$ 119,560
-	3,439	328,849
-	-	7,953
-	13,079	378,827
-	509	69,590
-	5,732	147,581
287,060	-	287,060
-	171,930	171,930
\$ 287,060	\$ 194,689	\$ 1,511,350
\$ -105,489	\$ -108,575	\$ -469,575
\$ 216,602	\$ 155,578	\$ 1,287,772
-	-	-413,846
\$ 216,602	\$ 155,578	\$ 873,926
\$ 111,113	\$ 47,003	\$ 404,351
-173,313	333,840	521,453
\$ -62,200	\$ 380,843	\$ 925,804
\$ -62,200	\$ -	\$ -62,200
-	-	590,300
-	-	16,861
-	380,843	380,843
\$ -62,200	\$ 380,843	\$ 925,804

## City of Reinbeck

**Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Statement of Activities and Net Assets –  
Governmental Funds  
As of and for the year ended June 30, 2004**

<b>Total governmental funds cash balances (page 12)</b>	\$ 925,804
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*Amounts reported for governmental activities in the Statement of Activities  
and Net Assets are different because:*

None	-
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<b>Cash basis net assets of governmental activities (page 11)</b>	\$ 925,804
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<b>Net change in cash balances (page 12)</b>	\$ 404,351
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*Amounts reported for governmental activities in the Statement of Activities  
and Net Assets are different because:*

None	-
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<b>Change in cash balance of governmental activities (page 11)</b>	\$ 404,351
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**City of Reinbeck**

**Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds**

**As of and for the year ended June 30, 2004**

	Enterprise Funds		
	Water	Sewer	Solid Waste
Operating receipts:			
Charges for service	\$ 122,402	\$ 202,480	\$ 55,372
Miscellaneous	9,650	1,697	22,925
Total operating receipts	\$ 132,052	\$ 204,177	\$ 78,297
Operating disbursements:			
Business type activities	\$ 145,527	\$ 95,442	\$ -
Total operating disbursements	\$ 145,527	\$ 95,442	\$ -
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ -13,475	\$ 108,735	\$ 78,297
Non-operating receipts (disbursements):			
Interest on investments	\$ 11	\$ 2,157	\$ 41
Miscellaneous	761	193	-
Debt service	-	-	-
Total non-operating receipts (disbursements)	\$ 772	\$ 2,350	\$ 41
Excess (deficiency) of receipts over (under) disbursements	\$ -12,703	\$ 111,085	\$ 78,338
Operating transfers in (out)	979	\$ -702,518	\$ -174,958
Net change in cash balances	\$ -11,724	\$ -591,433	\$ -96,620
Cash balances beginning of year	197,422	904,228	96,620
Cash balances end of year	\$ 185,698	\$ 312,795	\$ -
<b>Cash Basis Fund Balances</b>			
Unreserved	\$ 185,698	\$ 312,795	\$ -
Total cash basis fund balances	\$ 185,698	\$ 312,795	\$ -

See notes to financial statements.

Enterprise Funds									
Cable TV		Internet		Telephone		Sewer Plant	Total		
\$	142,839	\$	58,614	\$	460,440	\$	-	\$	1,042,147
	6,429		-		12,553		-		53,254
\$	149,268	\$	58,614	\$	472,993	\$	-	\$	1,095,401
\$	119,922	\$	43,024	\$	316,097	\$	155,309	\$	875,321
\$	119,922	\$	43,024	\$	316,097	\$	155,309	\$	875,321
\$	29,346	\$	15,590	\$	156,896	\$	-155,309	\$	220,080
\$	-	\$	-	\$	-	\$	-	\$	2,209
	4,133		452		1,239		-		6,778
	-49,121		-11,579		-127,015		-		-187,715
\$	-44,988	\$	-11,127	\$	-125,776	\$	-	\$	-178,728
\$	-15,642	\$	4,463	\$	31,120	\$	-155,309	\$	41,352
	1,187		123		1,261		-		-873,926
\$	-14,455	\$	4,586	\$	32,381	\$	-155,309	\$	-832,574
	793		-8,046		11,564		-36,894		1,165,687
\$	-13,662	\$	-3,460	\$	43,945	\$	-192,203	\$	333,113
\$	-13,662	\$	-3,460	\$	43,945	\$	-192,203	\$	333,113
\$	-13,662	\$	-3,460	\$	43,945	\$	-192,203	\$	333,113

## City of Reinbeck

**Reconciliation of the Statement of Cash  
Receipts, Disbursements and Changes in Cash Balances  
to the Statement of Activities and Net Assets –  
Proprietary Funds  
As of and for the year ended June 30, 2004**

<b>Total enterprise funds cash balances (page 14)</b>	\$ 333,113
---	------------

*Amounts reported for business type activities in the Statement of Activities  
and Net Assets are different because:*

None	-
------	---

<b>Cash basis net assets of business type activities (page 11)</b>	\$ 333,113
--	------------

<b>Net change in cash balances (page 14)</b>	\$ -832,574
--	-------------

*Amounts reported for business type activities in the Statement of Activities  
and Net Assets are different because:*

None	-
------	---

<b>Change in cash balance of business type activities (page 11)</b>	\$ -832,574
---	-------------

## City of Reinbeck

### Notes to Financial Statements

June 30, 2004

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Reinbeck is a political subdivision of the State of Iowa located in Grundy County and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, solid waste, cable TV, internet, telephone and sewer plant utilities for its citizens.

##### A. Reporting Entity

For financial reporting purposes, the City of Reinbeck has included all funds, organizations, agencies, board, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

These financial statements present the City of Reinbeck (the primary government) and the Reinbeck Fire Department (component unit). This component unit discussed below is included in the City's reporting entity because of the significance of the operational or financial relationships with the City.

##### Fire Department

The Reinbeck Fire Department is legally separate from the City but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City. The Reinbeck Fire Department has been established pursuant to local ordinance to prevent and extinguish fires and to protect lives and property against fires, to promote fire prevention and fire safety, and to answer all emergency calls for which there is no other established agency. Although the Reinbeck Fire Department is legally separate from the City, its purpose is to benefit the City of Reinbeck (the primary government) by providing the above services and by soliciting contributions and managing those funds.

##### Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: County Assessor's Conference Board, City Assessor's Conference Board, County Emergency Management Commission, County Landfill Commission and County Joint E911 Service Board.

##### B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Solid Waste Fund accounts for the operation and maintenance of the City's garbage service.

The Cable TV Fund accounts for the operation and maintenance of the City's cable system.

The Internet Fund accounts for the operation and maintenance of the City's internet system.

The Telephone Fund accounts for the operation and maintenance of the City's telephone system.

The Sewer Plant Fund accounts for the operation and maintenance of the City's waste plant system.

C. Measurement Focus and Basis of Accounting

The City of Reinbeck maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the general government, debt service and capital projects functions.

**NOTE 2 – CASH AND POOLED INVESTMENTS**

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year-end. The City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

**NOTE 3 – GENERAL OBLIGATION CAPITAL LOAN AND REVENUE LOAN NOTES**

Annual debt service requirements to maturity for general obligation capital loan notes and revenue loan note are as follows:

Year Ending June 30,	General Obligation Capital Loan Notes		Revenue Loan Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$235,000	\$78,568	\$105,000	\$72,225	\$340,000	\$150,793
2006	240,000	72,337	110,000	67,275	350,000	139,612
2007	255,000	65,153	115,000	62,100	370,000	127,253
2008	265,000	56,852	125,000	56,250	390,000	113,102
2009	275,000	47,593	130,000	51,750	405,000	99,343
2010	280,000	37,332	135,000	47,520	415,000	84,852
2011	295,000	26,210	145,000	41,828	440,000	68,038
2012	170,000	13,830	150,000	34,750	320,000	48,580
2013	180,000	7,200	160,000	27,017	340,000	34,217
2014	-	-	170,000	18,615	170,000	18,615
2015	-	-	180,000	9,528	180,000	9,528
2016	-	-	185,000	9,620	185,000	9,620
	<u>\$2,195,000</u>	<u>\$405,075</u>	<u>\$1,710,000</u>	<u>\$498,478</u>	<u>\$3,905,000</u>	<u>\$903,553</u>



The Code of Iowa requires that principal and interest on general obligation capital loan notes be paid from the Debt Service Fund.

The resolution providing for the issuance of the general obligation capital loan notes for the January 23, 2003 – Essential Corporate Purpose and the May 1, 2001 – Telecommunications System loans includes the following provision:

- a) The loan will be redeemed by a levy of annual tax on all the taxable property in Reinbeck, Iowa.

#### **NOTE 4 – PENSION AND RETIREMENT BENEFITS**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$14,079, \$13,044 and \$11,708 respectively, equal to the required contributions for each year.

#### **NOTE 5 – COMPENSATED ABSENCES**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 4,410
Sick leave	10,668
Total	<u>\$ 15,078</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

#### **NOTE 6 – INTER-FUND TRANSFERS**

The detail of inter-fund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
General Fund	Special Revenue: Special Assessment	\$ 43,124
General Fund	Special Revenue: Emergency	12,829
General Fund	Special Revenue: Employee Benefits	195,115
General Fund	Enterprise: Solid Waste	174,958
General Fund	Special Revenue: Road Use Tax	135,132
General Fund	Enterprise: Sewer	354,434
Capital Projects: Park	Special Revenue: Urban Renewal Tax Increment	62,112
Debt Service	Special Revenue: Urban Renewal Tax Increment	216,602
Capital Projects: Water & Sewer	Enterprise: Sewer	64,384
Capital Projects: Park	Enterprise: Sewer	280,150
Enterprise: Cable TV	Enterprise: Sewer	1,187
Enterprise: Internet	Enterprise: Sewer	123
Enterprise: Telephone	Enterprise: Sewer	1,261
Enterprise: Water	Enterprise: Sewer	979
		<u>\$ 1,542,390</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

#### **NOTE 7 – RISK MANAGEMENT**

The City of Reinbeck is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **NOTE 8 – DEFICIT FUND BALANCE**

The Special Revenue Fund – Urban Renewal Tax Increment Financing and Debt Service Fund have deficit balances of \$8,769 and \$62,200, respectively, at June 30, 2004. The deficits will be eliminated with future tax collections.

#### **NOTE 9 – ACCOUNTING CHANGE AND RESTATEMENTS**

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

#### **NOTE 10 – RELATED PARTY TRANSACTIONS**

The City had business transactions between the City and City officials totaling \$30,451 during the year ended June 30, 2004.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**City of Reinbeck**  
**Budgetary Comparison Schedule**  
**of Receipts, Disbursements, and Changes in Balances –**  
**Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds**

**Required Supplementary Information**

**Year ended June 30, 2004**

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 519,424	\$ -
Tax increment financing collections	203,446	-
Other city tax	17,501	-
Licenses and permits	4,000	-
Use of money and property	24,334	2,209
Intergovernmental	179,587	-
Charges for service	4,275	1,042,147
Special assessments	4,166	-
Miscellaneous	85,042	60,032
Total receipts	<u>\$ 1,041,775</u>	<u>\$ 1,104,388</u>
Disbursements:		
Public safety	\$ 119,560	\$ -
Public works	328,849	-
Health and social services	7,953	-
Culture and recreation	378,827	-
Community and economic development	69,590	-
General government	147,581	-
Debt service	287,060	187,715
Capital projects	171,930	-
Business type activities	-	875,321
Total disbursements	<u>\$ 1,511,350</u>	<u>\$ 1,063,036</u>
Excess (deficiency) of receipts over (under) disbursements	\$ -469,575	\$ 41,352
Other financing sources, net	873,926	-873,926
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 404,351	\$ -832,574
Balances beginning of year	521,453	1,165,687
Balances end of year	<u><u>\$ 925,804</u></u>	<u><u>\$ 333,113</u></u>

See accompanying independent auditor's report.

Net		Budgeted Amounts		Final to Net	
		Original	Final	Variance	
\$	519,424	\$ 517,379	\$ 517,379	\$	2,045
	203,446	200,000	200,000		3,446
	17,501	17,953	17,953		-452
	4,000	2,975	2,975		1,025
	26,543	56,518	56,518		-29,975
	179,587	2,178,935	2,178,935		-1,999,348
	1,046,422	1,383,924	1,383,924		-337,502
	4,166	-	-		4,166
	145,074	26,735	26,735		118,339
\$	2,146,163	\$ 4,384,419	\$ 4,384,419	\$	-2,238,256
\$	119,560	\$ 127,305	\$ 129,805	\$	10,245
	328,849	259,537	346,103		17,254
	7,953	6,900	9,075		1,122
	378,827	305,881	400,881		22,054
	69,590	120,119	180,119		110,529
	147,581	146,255	146,255		-1,326
	474,775	181,578	181,578		-293,197
	171,930	-	70,000		-101,930
	875,321	2,982,346	2,982,346		2,107,025
\$	2,574,386	\$ 4,129,921	\$ 4,446,162	\$	1,871,776
\$	-428,223	\$ 254,498	\$ -61,743	\$	-366,480
	-	-	-		-
\$	-428,223	\$ 254,498	\$ -61,743	\$	-366,480
	1,687,140	2,078,491	2,078,491		-391,351
\$	1,258,917	\$ 2,332,989	\$ 2,016,748	\$	-757,831

**City of Reinbeck**

**Notes to Required Supplementary Information – Budgetary Reporting**

**June 30, 2004**

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$316,241. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the general government, debt service and capital projects functions.

## **Other Supplementary Information**

**City of Reinbeck**

**Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Non-major Governmental Funds**

**As of and for the year ended June 30, 2004**

	Special Revenue		
	Emergency	Employee Benefits	Special Assessment Curb & Gutter
Receipts:			
Property tax	\$ 101	\$ 78,002	\$ -
Other city tax	-	2,347	-
Use of money and property	-	-	-
Intergovernmental	-	134	-
Special assessments	-	-	4,166
Total receipts	\$ 101	\$ 80,483	\$ 4,166
Disbursements:			
Operating:			
Public works	\$ -	\$ 3,439	\$ -
Culture and recreation	-	13,079	-
Community & economic development	-	509	-
General government	-	5,732	-
Capital projects	-	-	-
Total disbursements	\$ -	\$ 22,759	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ 101	\$ 57,724	\$ 4,166
Other financing uses:			
Operating transfers in (out)	-12,829	-195,115	-43,124
Net change in cash balances	\$ -12,728	\$ -137,391	\$ -38,958
Cash balances beginning of year	12,728	137,391	38,958
Cash balances end of year	\$ -	\$ -	\$ -
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue funds	\$ -	\$ -	\$ -
Capital projects fund	-	-	-
Total cash basis fund balances	\$ -	\$ -	\$ -

See accompanying independent auditor's report.



Capital Projects					
Water & Sewer		Park		Tele- communications	Total
\$	-	\$	-	\$	78,103
	-		-		2,347
	-		-	1,364	1,364
	-		-	-	134
	-		-	-	4,166
\$	-	\$	-	\$	86,114
\$	-	\$	-	\$	3,439
	-		-		13,079
	-		-		509
	-		-		5,732
64,384		-		107,546	171,930
\$	64,384	\$	-	\$	194,689
\$	-64,384	\$	-	\$	-108,575
64,384		342,262		-	155,578
\$	-	\$	342,262	\$	47,003
	-		-282,262		333,840
\$	-	\$	60,000	\$	380,843
\$	-	\$	-	\$	-
	-		60,000		380,843
\$	-	\$	60,000	\$	380,843

**City of Reinbeck**  
**Schedule of Indebtedness**  
**Year ended June 30, 2004**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation capital loan notes:			
Telecommunications system	May 1, 2001	3.9-4.7%	\$995,000
Essential corporate purpose	Jan 23, 2003	1.75-4.0%	\$1,595,000
Revenue note:			
Telecommunications revenue	Sept 1, 2001	4.4-5.2%	\$1,810,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$900,000	\$-	\$95,000	\$805,000	\$39,360	\$-
1,495,000	-	105,000	1,390,000	47,400	-
\$2,395,000	\$-	\$200,000	\$2,195,000	\$86,760	\$-
\$1,810,000	\$-	\$100,000	\$1,710,000	\$87,715	\$-

## City of Reinbeck

## Note Maturities

June 30, 2004

Year Ending June 30,	General Obligation Capital Loan Notes				Revenue Note		Total
	Essential Corporate Purpose		Telecommunications System		Telecommunications Revenue		
	Issued Jan 23, 2003		Issued May 1, 2001		Issued Sept 1, 2001		
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2005	2.10%	\$135,000	4.10%	\$100,000	4.50%	\$105,000	\$340,000
2006	2.50%	135,000	4.20%	105,000	4.50%	110,000	350,000
2007	2.80%	145,000	4.30%	110,000	4.50%	115,000	370,000
2008	3.05%	150,000	4.40%	115,000	4.55%	125,000	390,000
2009	3.30%	155,000	4.50%	120,000	4.60%	130,000	405,000
2010	3.55%	155,000	4.60%	125,000	4.80%	135,000	415,000
2011	3.80%	165,000	4.70%	130,000	4.95%	145,000	440,000
2012	3.90%	170,000	-	-	5.00%	150,000	320,000
2013	4.00%	180,000	-	-	5.05%	160,000	340,000
2014	-	-	-	-	5.10%	170,000	170,000
2015	-	-	-	-	5.15%	180,000	180,000
2016		-	-	-	5.20%	185,000	185,000
		<u>\$1,390,000</u>		<u>\$805,000</u>		<u>\$1,710,000</u>	<u>\$3,905,000</u>

## City of Reinbeck

Schedule of Receipts By Source and Disbursements By Function –  
All Governmental Funds

## For the Last Two Years

	2004	2003
Receipts:		
Property tax	\$ 519,424	\$ 494,494
Tax increment financing collection	203,446	273,094
Other city tax	17,501	23,628
Licenses and permits	4,000	4,170
Use of money and property	24,334	40,231
Intergovernmental	179,587	202,883
Charges for service	4,275	4,288
Special assessments	4,166	3,317
Miscellaneous	85,042	173,908
Total	<u>\$ 1,041,775</u>	<u>\$ 1,220,013</u>
Disbursements:		
Operating:		
Public safety	\$ 119,560	\$ 254,872
Public works	328,849	228,475
Health and social services	7,953	2,443
Culture and recreation	378,827	259,347
Community and economic development	69,590	7,124
General government	147,581	163,486
Debt service	287,060	1,617,056
Capital projects	171,930	757,691
Total	<u>\$ 1,511,350</u>	<u>\$ 3,290,494</u>

**Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting**

Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting

To the Honorable Mayor and  
Members of the City Council:

I have audited the financial statements of the City of Reinbeck, Iowa, as of and for the year ended June 30, 2004, and have issued my report thereon dated September 28, 2004. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior audit statutory comments have all been resolved, except for items II-B-04, II-G-04, II-I-04 and II-J-04.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with these assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item I-A-04 is a material weakness. Prior audit reportable conditions have been resolved except for items I-A-04 through I-F-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Reinbeck and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Reinbeck during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink, reading "Keith Oltrogge", is centered within a light blue rectangular box. The signature is written in a cursive, flowing style.

Keith Oltrogge  
Certified Public Accountant

September 28, 2004



**City of Reinbeck**  
**Schedule of Findings**  
**Year ended June 30, 2004**

**Part I – Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

- I-A-04 Segregation of Duties – One important element in designing an internal control structure that safeguards assets and reasonably ensures the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another.

During my review of the City's control procedures, I noted that one person has control over one or more of the following areas:

1. Accounting system-performance of all general accounting functions and custody of assets.
2. Receipts-journalizing, posting and reconciling.
3. Disbursements-check writing, signing, posting and reconciling.
4. Payroll-preparation and distribution.
5. Utilities-billings and recording.
6. Computer system functions-data entry, error correction, on-line edit and update.

Recommendation – I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel.

Response – We are currently reviewing operating procedures and duty assignments to obtain appropriate segregation of duties and maximize internal controls.

Conclusion – Response accepted.

- I-B-04 Accounting Policies and Procedures Manual – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

1. Aid in training additional or replacement personnel and act as a quick reference for staff members and officials.
2. Helps streamline accounting operations by achieving uniformity in accounting and in the application of policies and procedures.
3. Saves supervisory time by recording decisions so that they will not have to be made each time the same, or a similar, situation arises.
4. Helps to preserve the key elements in the government's internal control structure.
5. Increases effectiveness and efficiency in your organization.

Response – We have started adopting written policies and procedures and will continue to approve written policies and procedures in the future.

Conclusion – Response accepted.

I-C-04 Receipts – Written receipts were not always issued at the time collections were received.

Recommendation – Additional control over cash would be obtained by promptly receipting in collections when received, and by entering the actual date of receipt in the general ledger. Deposit slips should be dated and a list of all checks attached so proper reconciliation could be done when discrepancies occur.

Response – Receipts will be issued at the time of collection. Deposit slips will be dated and entered in the general ledger properly, and a list of all miscellaneous receipts will be done.

Conclusion – Response accepted.

I-D-04 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled. Utility deposit slips did not itemize cash and checks deposited and the billing register contained only the date of entry and not the actual date payment was received.

Not all monthly delinquent account listings were kept on file, delinquent account balances were not always carried forward to the next billing cycle and penalties on delinquent accounts were not always carried forward as required by City ordinance. Also, the City's computer software package did not record individual account corrections and adjustments as the changes were made.

Recommendation – Procedures should be established to maintain a delinquent listing and reconcile utility billings, collections and delinquencies for each billing cycle. The Council should review the reconciliation and monitor delinquencies. Deposit slips should reflect names of paying customers in the absence of a daily cash sheet. The billing register should contain the date actually paid which will aid in reconciling collections to the bank deposit.

Delinquent accounts and applicable penalties should be carried forward to ensure proper billing and compliance with City ordinance. A record of file maintenance transactions should be maintained.

Response – Currently we are implementing a new software package for utility billing, collection and delinquent reconciliation procedures, which will address all of the above recommendations.

Conclusion – Response accepted.

I-E-04 Monthly Financial Reports – Monthly financial reports, including bank reconciliations, were not prepared or presented for approval to the City Council at the monthly Council meeting.

Recommendation – Financial reports should be prepared and presented monthly to the Council to enable the Council to use the information to manage City business.

Book balances should be reconciled to bank balances at the end of every month and the reconciliation should accompany the monthly financial report to the Council for their review and approval.

Response – Our new accounting software package will provide monthly financial reports which will be supported by bank to book reconciliation each month.

Conclusion – Response accepted.

I-F-04 Transfers – The City transferred money to and from various funds and accounts throughout the year. These transfers were not authorized or approved by the City Council.

Recommendation – The City Council should approve all fund and account transfers prior to actual transfer. The approval, related amounts and purpose of the transfer, should be documented as part of the minutes record.

Response – All fund and account transfers will be approved by the City Council and documented in the minutes record prior to the actual transfer.

Conclusion – Response accepted.

**City of Reinbeck**  
**Schedule of Findings**  
**Year ended June 30, 2004**

**Part II: Other Findings Related to Statutory Reporting:**

II-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the general government, debt service and capital projects functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budgeted should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

II-C-04 Questionable Disbursements – I noted no disbursements that would not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-04 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Larsen Trustworthy Hardware Mayor Lon Larsen's father	Tools, supplies & miscellaneous	\$1,784
Ron Petersen, Mayor Pro tem Employee of Moeller & Walter Lumber	Materials and supplies	\$3,796
Janalyn Harris, Administrative Assistant Spouse owns Harris Construction	Contract labor	\$1,328
David Roberts, Park Board Member	Contract labor	\$1,788
Larsen Plumbing & Heating Mayor Lon Larsen, Owner	Contract labor	\$6,738
Peterson & Son John Peterson, Memorial Board Chairman	Contract labor	\$1,502
K & H Plumbing Owner, Dave Heasley, Council Member	Contract labor	\$1,720
Beryl Manlick Council Member	Contract labor, phone and health insurance reimbursements	\$11,795

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with Beryl Manlick does not appear to represent a conflict of interest since there was Council approval. The materials and supplies purchased from Moeller and Walter Lumber does not appear to represent a conflict of interest since Ron Petersen is only an employee of the company.

II-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Council Minutes – No transactions were found that I believe should have been approved in the Council minutes but were not.

Although minutes of Council proceedings were published, they were not published within fifteen days and the publication did not contain a summary of all receipts as required by Chapter 372.13(6) of the Code of Iowa. Also, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa and should publish minutes and annual individual salaries as required.

Response – We will publish minutes and salaries as required.

Conclusion – Response accepted.

II-H-04 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-I-04 Property Tax Collection – Part of employee benefits tax levy collections and all of Emergency Fund tax collections were credited to the General Fund, General Account.

Recommendation – Property tax collections from the employee benefits levy should be credited directly to a Special Revenue, Employee Benefits Account in accordance with the Iowa Department of Management budget instructions and to facilitate better accountability for compliance with the levy requirements in paying employee benefits for General Fund or Road Use Tax Account employees.

Property tax collections from the Emergency Fund tax levy should be credited directly to a Special Revenue Fund, Emergency Fund to facilitate better accountability for compliance with the levy requirements. Also, Chapter 384.8 of the Code of Iowa states in part that a City may establish an Emergency Fund and transfers may be made from the Emergency Fund to the General Fund.

Response – We will establish the fund/accounts recommended.

Conclusion – Response accepted.

II-J-04 Financial Condition – The Special Revenue Fund – Urban Renewal Tax Increment Financing and the Debt Service Fund accounts had deficit balances of \$8,769 and \$62,200, respectively, at June 30, 2004.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return the accounts to a sound financial position.

Response – Last year, the deficit balance in the Debt Service account was \$173,313. We are working on eliminating these deficits.

Conclusion – Response accepted.

II-K-04 Revenue Bonds and Notes - The City has complied with the revenue bond and note resolutions.